Supreme Court, U.S.
FILED
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No. 04-1329

IN THE

Supreme Court of the United States

ILLINOIS TOOL WORKS, INC., *et al.*,

Petitioners,

v.

INDEPENDENT INK, INC.,

Respondent.

ON WRIT OF CERTIORARI TO THE
UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

BRIEF OF THE HOUSTON INTELLECTUAL PROPERTY LAW ASSOCIATION AS *AMICUS CURIAE* IN SUPPORT OF PETITIONERS

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QUESTION PRESENTED

The amicus curiae will address the following question:

1. Whether, in an action under Section 1 of the Sherman Act, 15 U.S.C. § 1, alleging that the defendant engaged in unlawful tying by conditioning a patent license on the licensee's purchase of a non-patented good, the plaintiff must prove as part of its affirmative case that the defendant possessed market power in the relevant market for the tying product, or market power instead is presumed based solely on the existence of the patent on the tying product.

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INTERESTS OF THE *AMICUS CURIAE*

The Houston Intellectual Property Law Association (HIPLA) is an association of over 400 lawyers and other professionals who work in the Houston, Texas area.[1] The practice of most of the HIPLA membership relates in substantial part to the field of intellectual property law. Founded in 1961, HIPLA is one of the largest regional associations of intellectual property practitioners. No HIPLA member has served as record counsel to any party in the subject of this appeal.

HIPLA members often are called upon to advise their clients in matters that fall within the nexus of antitrust law and intellectual property law. HIPLA believes that the decision of the Federal Circuit in this case, holding that a court must presume that the existence of a patent confers market power for the purposes of a tying claim under Section 1 of the Sherman Act, departs from economic reality. Though sympathetic to the Federal Circuit's view that it was bound by this Court's precedent to reach the decision it did, HIPLA believes, based on the experience of HIPLA members in procuring patents for their clients, and in counseling clients on management of their patent portfolios, the existence of a patent has no measurable impact on demand for a product covered by the patent, and does not confer market power in the relevant market.

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1. No counsel for a party authored this brief in whole or in part, and no person or entity other than *amicus curiae*, its members or counsel, has made a monetary contribution to the preparation or submission of this brief.

The continuing viability of the market power presumption for purposes of a Section 1 tying claim falls squarely within the question presented by Illinois Tool Works, Inc.'s petition. This amicus curiae respectfully requests that this Court reverse the Federal Circuit's holding in this case.[2]

BACKGROUND

The petitioner in this case owns a patent on a printhead used in applying barcodes to objects moving on an assembly line. The petitioner licenses the use of the patented printhead, and further requires its licensee to buy ink—an unpatented product, for use with the printhead—exclusively from the petitioner. The Court of Appeals for the Federal Circuit found that requirement to be an illegal tying agreement violative of Section 1 of the Sherman Act.[3]

A presumption that the issuance of a patent confers upon its owner market power[4] in the relevant market to which the patent pertains creates a "one-size-fits-all" rule that permits the plaintiff to file suit on a Section 1 tying claim without needing to demonstrate proof of the defendant's market power, and shifts the burden to the defendant to prove that

2. HIPLA has received written consent from both Petitioner and Respondent to file this *amicus* brief.

3. *See Independent Ink, Inc. v. Illinois Tool Works, Inc. and Trident, Inc.*, 396 F.3d 1342, 1345 (Fed. Cir. 2005).

4. "Market power" has been defined as "the ability profitably to maintain prices above, or output below, competitive levels for a significant period of time." *See* U.S. Dep't of Justice and Fed. Trade Comm'n, Antitrust Guidelines for the Licensing of Intellectual Property, § 2.2 "Intellectual property and market power" (1995).

its patent did not confer market power. The market power presumption has long been criticized by commentators, who have been virtually uniform in stating that most patents confer no market power at all.[5]

In reaching its decision in this case, the Federal Circuit took note of the criticism levied against the market power presumption, but recognized that it was bound by this Court's precedent to follow decisions of this Court that established the presumption, until such time as this Court chooses to abolish the presumption.[6]

SUMMARY OF ARGUMENT

The presumption that the mere issuance of a patent confers upon its owner market power in the relevant market for purposes of Section 1 tying claims is not supported by economic reality, and should be abolished. The presumption is inappropriate because the market power, if any, that a

5. *See, e.g.*, Herbert Hovenkamp, Federal Antitrust Policy § 10.3 ("[M]ost patents confer absolutely no market power on their owners. . . . The economic case for 'presuming' sufficient market power . . . simply because the tying product is patented . . . is very weak."); Richard A. Posner, Antitrust Law 197-98 (2d ed. 2001) ("[M]ost patents confer too little monopoly power to be a proper object of antitrust concern. Some patents confer no monopoly power at all."); National Institute on Industrial and Intellectual Property—1984, "The Value of Patents and Other Legally Protected Commercial Rights," 53 Antitrust L.J. 535 (1985) ("A patented product may well be unique. It may, however, face a lot of substitutes, perhaps equally unique; and, as a result of this extensive availability of substitutes, confer very little, if any, monopoly power.") (comments of Professor F.M. Scherer, professor of economics, Swarthmore College).

6. *Independent Ink, Inc.*, 396 F.3d at 1350-51.

particular patent may confer will be unique to that patent, and will depend significantly upon the level of skill with which the patent was drafted, as well as the characteristics of the industry in which the patent will be used.

Though some patents drafted with claims having significant breadth and covering truly innovative inventions in certain industries may be able to confer market power on the patentee, this will be the exception rather than the rule. Indeed, the presumption of market power as being created by the mere issuance of a patent may be most effectively belied by this single fact: over half of all patents have been permitted by their owners to expire within a decade after their issuance, for failure to pay relatively insubstantial maintenance fees that are periodically due to the Patent Office. If market power in the relevant market truly were created by the mere issuance of a patent, one would expect nearly all patents to remain in existence until their natural termination; yet such is not the case.

Given the lack of evidence to support the market power presumption, the burden of proving market power in a Section 1 tying case is more appropriately allocated to the plaintiff than the defendant.

ARGUMENT

While each patent represents an invention that the U.S. Patent and Trademark Office has found new, useful, and nonobvious, not all patents are of equal value. The value of a patent may depend upon, for example, the industry in which the patented invention will be put to use. It may depend upon the degree to which the patented invention represents an improvement over the previous state of the art in that industry. And it may depend upon the skill of the drafting and prosecuting attorney. For reasons such as these, generalizations about the impact of a patent on a patentee, or a market, are problematic.

As an association of intellectual property practitioners, this amicus is particularly well-suited to provide insight on the question presented in this case. Members of this amicus are involved on an almost daily basis with assisting individuals and corporations in procuring patents, and subsequently helping them manage and license their patent portfolio. As such, this amicus has had the opportunity to observe first-hand that the market power presumption at issue in this case is unsupported by economic reality.

Our experience has been that the mere existence of a patent is no substitute for actual proof of market power. The issuance of a patent to an inventor or corporation, in all but the rarest cases, has no measurable impact on the demand for the patented product. This conclusion is further buttressed by recent empirical evidence pertaining to the operation of our patent system and the behavior of patentees. The one-size-fits-all presumption that the issuance of a patent confers market power upon the patentee is, in our view, not supportable.

A. The Issuance of a Patent Seldom Creates Market Power for the Patentee, Whether an Individual or a Corporation

The market power presumption has two significant drawbacks. First, it presumes that every patent has the same impact on the relevant market for the invention described and claimed therein. Second, it presumes that that impact is to confer market power in the relevant market upon the patentee. Both of these are contrary to the experience of this amicus.

1. Each Patent Has a Different Impact on the Relevant Market for the Patented Invention

The impact, if any, that a particular patent may have on the relevant market for the patented invention will be unique to that patent, and will depend significantly upon the level of skill with which the patent was drafted, as well as the characteristics of the industry in which the patent will be used.

A well-written patent application, drafted with sufficient knowledge of the relevant prior art, may have claims that maximize the scope of exclusivity while carefully avoiding overlap into the prior art. Such an application may be allowed to issue by the U.S. Patent and Trademark Office, without need for amendment or for potentially limiting arguments seeking to distinguish the claimed invention from art cited by the Examiner.

On the other hand, a patent application that is poorly drafted, or that was drafted without benefit of sufficient knowledge of the relevant prior art, may require significant

amendment during its prosecution through the Patent Office, which amendments may later estop the patentee from receiving the broadest possible interpretation of the patent claims.[7] In some circumstances, a patent that is not well drafted may contain claims that seek to protect too little of the patented invention, thereby permitting competitors to easily "design around" the patent. *See Johnson & Johnston Assocs. v. R.E. Service Co., Inc.*, 285 F.3d 1046, 1054 (Fed. Cir. 2002) (holding that subject matter disclosed by a patent, but not claimed therein, has been dedicated to the public). A patent that easily can be designed around has little value at all, and consequently, cannot confer any market power.

In addition to the level of skill with which the patent has been drafted, the industry to which the patent pertains is another factor that strongly impacts the market power, if any, that a patent may confer. The factors that determine market power—including the range of substitutes for the patented product, barriers to entry that may limit the patentee's ability to place his or her product in the hands of consumers, sophistication of buyers, and the like—differ between industries.[8] These differences are shown by recent scholarship that attempts to measure the value of United States patents.

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7. *See Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co., Ltd. et al.*, 535 U.S. 722, 733-36 (2002) (stating that when an amendment is made to secure a patent, and the amendment narrows the scope of the patent, the patentee may be estopped from arguing that territory surrendered by the amendment should be deemed equivalent to the literal claims of the issued patent).

8. Herbert Hovenkamp et al., IP and Antitrust, § 4.2c (2005) (noting that the range of substitutes for the patented product or process from which the consumer may choose may be quite large, notwithstanding the patent).

Allison et al. hypothesized that litigation over a patent was a characteristic indicating that such patent had value to its owner.[9] They then studied 1,000 randomly selected patents that issued between June 1996 and May 1998, and 300 randomly selected patents that issued during the same period and that were the subject of infringement litigation terminated during 1999-2000.[10] Each of the 1,300 patents was assigned to a technology category (*e.g.*, pharmaceuticals, semi-conductors, chemistry, energy-related, and the like).[11] Allison et al.'s analysis found that the likelihood that a particular patent would be litigated—an indication of the patent owner's perception of the patent's value—differed significantly from industry to industry.[12] Other studies attempting to value patents similarly found evidence that patent value is very industry-specific.[13]

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9. Allison et al., "Valuable Patents," 92 Geo. L.J. at 437.

10. *Id.* at 446.

11. *Id.* at 472.

12. *Id.* at 472-75.

13. For example, Barney evaluated the rate at which patents in six disparate technology classes were abandoned by their owners prior to expiration for failure to pay maintenance fees, and found significant variations. Jonathan A. Barney, "A Study of Patent Mortality Rates: Using Statistical Survival Analysis to Rate and Value Patent Assets," 30 AIPLA Q.J. 317, Table 2 (2002). *Cf.* Steven C. Carlson, "Patent Pools and the Antitrust Dilemma," 16 Yale J. Reg. 359, 385 (1999) (opining that patents are most valuable in the pharmaceutical industry, and noting that even in that industry, only about two of every ten patents typically produce value for their holders).

2. Only in Rare Circumstances Does Issuance of A Patent Confer Market Power Upon a Patentee

Though some patents drafted with claims having significant breadth and covering truly innovative inventions in certain industries may be able to confer market power on the patentee, the experience of this amicus is that such will be the exception rather than the rule.

The issuance of a patent to a corporation cannot be presumed to convey market power, or even value, to the corporation. IBM once surveyed 10,000 of its patents, to find that only 40 had any measurable value.[14] And a general counsel for a major American software manufacturer recently acknowledged that 97% of his company's patent applications on file at the time were directed toward procuring patents that merely would be "nice to have," while 3% of the patent applications were directed towards "truly core" inventions that could markedly impact the company.[15] Clearly, even for corporations, the receipt of a particular patent cannot be said to automatically confer value, or market power.[16]

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14. James E. White, "The U.S. First-to-Invent System, the Mossinghoff Conclusion . . . and Statistics," 85 J. Pat. & Trademark Office Soc'y 357, 362 (2003). As to those 40 patents, the value was substantial. Not so, the other 9,960.

15. John R. Allison et al., "Valuable Patents," 92 Geo. L.J. at 461 n.111.

16. The United States Patent and Trademark Office does not consider the intrinsic "value" of an invention in deciding whether to allow an application to issue as a patent. If the patent application meets the technical requirements of 35 U.S.C. § 112, the Patent Office

(Cont'd)

This is not to say that patents are not beneficial to corporations—far from it. The point is merely that patents are useful to corporations for many reasons, few if any of which have anything to do with seeking market power.

Patents are especially attractive to start-up corporations, which may file patent applications as a way to garner attention and funding from investors:

> [Some] companies, especially start-ups, obtain patents as a financing tool. Venture capitalists use client patents . . . as evidence that the company is well-managed, is at a certain stage in development, and has defined and carved out a market niche.[17]

Thus a patent may enable a start-up corporation to demonstrate its technological sophistication in a particular niche in a market. This does not, however, automatically establish the start-up as a dominant player in the market.

The start-up that seeks to produce a patented product still will need to fund the manufacture of the product and its distribution into the marketplace, with no guarantee that the

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is required to issue a patent if the invention is "useful" (*see* 35 U.S.C. § 101), "new" (*see* 35 U.S.C. § 102), and "non-obvious" (*see* 35 U.S.C. § 103). For that reason, the Patent Office has issued patents on such "inventions" as a "Method of Swinging on a Swing" (U.S. Patent No. 6,368,227), a "System and Method for Providing Reservations for Restroom Use" (U.S. Patent No. 6,329,919) and a "Motorized Ice Cream Cone" (U.S. Patent No. 5,971,829).

17. Mark A. Lemley, "Rational Ignorance at the Patent Office," 95 Nw. U. L. Rev. 1495, 1505-06 (2001).

product will gain acceptance in the market. The startup holding a patent on, for example, a research tool useful for drug design nonetheless may find itself unable to stop a competitor from arranging to have the process covered by the research tool patent practiced overseas, with the results electronically transmitted to the competitor from the offshore lab. *Cf. Bayer AG v. Housey Pharms.*, 340 F.3d 1367, 1377 (Fed. Cir. 2003) (finding no infringement from overseas practice of patented research tool method on the grounds that Section 271(g) of the Patent Act pertains only to physical goods, and not to information yielded from a patented process).

In the middle of the spectrum, a more mature corporation may seek patents to leverage itself into a market. For example, an established company trying to expand into different market segments could be faced with competitors' patents that might exclude it from those market segments. The expanding company may seek to obtain its own patents on products and/or processes that its customers and competitors find attractive. The company could then use its new patents to "horse trade" licenses under its patents for licenses under its competitors' patents, thereby expanding the scope of services that the company could offer. In that scenario, the issuance of patents to different companies, and the resulting cross-licenses under those patents, would actually *increase* competition in the market.

And at the far other end of the spectrum, a very large corporation may assemble a patent portfolio for other, more defensive purposes, such as to protect its technology from usurpation by its competitors:

> Large companies in many industries hold patents for defensive purposes—to deter other large companies from suing them. The result is a sort of 'mutually

> assured destruction' in which very few companies actually sue for patent infringement because they know that, if they do, their opponents will also be able to sue them for patent infringement. If there are any patent disputes at all between these companies, they tend to end in royalty-free cross-licenses.[18]

In addition to "defensive patenting," many large companies may patent to maintain their reputation as an industry leader, or even for the benefit of being able to advertise their product as comprising "patented technology."[19]

In sum, the experience of this amicus is that the issuance of patents to corporations often promotes competition within an industry, and rarely confers market power to the corporate patentholder.

In addition to patents granted to corporations, a substantial number of patents issue each year to individuals, who on average are unlikely to have the resources necessary to be able to leverage a single patent into market power in the relevant market. A comprehensive study of all United States patents issued between 1963 and 1999—2,925,537 patents in all—found that 18% of those patents were issued to the inventor (rather than to a corporation), or had been assigned to another individual.[20] Data provided by the Patent Office confirms that a significant number of U.S. Patents

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18. Allison et al., "Valuable Patents," 92 Geo. L.J. at 468.

19. Lemley, "Rational Ignorance at the Patent Office," 95 Nw. U. L. Rev. at 1505-06.

20. John R. Allison et al., "Valuable Patents," 92 Geo. L.J. 435, 465 (2004).

continue to be issued to individuals, rather than corporations. In 2003, for example, 19,634 patents were issued to U.S. and foreign individuals, which represented 11.6% of all patents granted that year.[21]

Certainly an individual patentholder does receive from his or her patent the right to exclude others from practicing the patented invention. However, whether or not the individual has the resources to convert this right into actual market power is far from guaranteed. Indeed, it is unlikely. An individual patentee threatening to enjoin other, probably larger entities from infringing the patent may not be taken seriously by the alleged infringers, if the patentee continues to act alone. Competitors may have the mindset that an individual patentee probably will lack the resources to fund an expensive patent infringement suit. Unless the patentee transfers rights in the patent to a larger entity, or retains a law firm with the resources to mount a contingent fee infringement suit, the economic reality is that the individual patentholder likely will derive no value at all from the patent.

Where an individual patentee holds a patent on a product, and attempts to introduce it into the marketplace, such efforts may fail as often as not, in view of the likelihood that the patentee will lack name recognition by consumers, and may not have sufficient resources to build such recognition before burning through its available funds. The right to exclude is no substitute for, and has no impact on, consumer demand for the product.

Accordingly, the experience of this amicus is that the issuance of a patent rarely confers market power upon the patentholder, be it a corporation or an individual.

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21. *See* "Patenting by Organizations, 2003" *available at* http://www.uspto.gov/web/offices/ac/ido/oeip/taf/topo_03.htm.

3. Empirical Proof: More Than Half of All Patents Are Permitted to Expire Before The End of Their Terms

Finally, the presumption of market power as being created by the mere issuance of a patent may be most effectively belied by this single fact: over half of all patents are not in force within a decade after their issuance, for failure to pay relatively insubstantial maintenance fees that are periodically due to the Patent Office.[22] This phenomenon suggests either that the corporate owners of the patent had so little market power that they did not survive until the end of the patent term, or that the patentholders did not deem these patents worthy of payment of a few thousand dollars within a decade of a particular patent's issuance. If market power in the relevant market truly were created by the mere issuance of a patent, one would expect nearly all patents to remain in existence until their natural termination; yet such is not the case. It strains credibility to presume that the majority of all patent owners would spend tens of thousands of dollars to procure a patent,[23] actually receive from their patent the benefit of market power in the market in which

22. Allison et al., "Valuable Patents," 92 Geo. L.J. at 440-41 (finding that between half to two-thirds of all United States patents expire before the end of their term for failure to pay maintenance fees). Maintenance fees are due in varying amounts at various times after issuance of a patent: 3.5 years ($900), 7.5 years ($2,300), and 11.5 years ($3,800). *See* USPTO Fee Schedule, *available at* http://www.uspto.gov/web/offices/ac/qs/ope/fee2005jul18.htm.

23. Lemley, "Rational Ignorance at the Patent Office," 95 Nw. U. L. Rev. at 1498-99 (finding that the cost to prosecute a patent from start to finish, including application preparation and fees, ranged from $10,000 to $30,000 per application).

the invention will be used, then subsequently walk away from the whole endeavor within the next decade or so over a few thousand dollars.

B. Even in the Section 1 Tying Context, Market Power Should Not Be Presumed

The conclusion that a patent does not confer market power upon its owner is not altered even in the Section 1 tying context, where a licensee has agreed as a condition of the license to purchase an unpatented good in addition to making payments for the right to use the patented invention. This amicus recognizes the counterargument that may be raised—that market power should be presumed in Section 1 tying cases actually brought before a court, because those cases in which a licensee of a patent first accepts the tying arrangement and subsequently becomes motivated to bring an antitrust action likely may constitute most or all of the small fraction of cases in which the patentee actually does have market power in the relevant market. However, this counterargument ignores the possibility that the lure of treble damages for a successful antitrust plaintiff, coupled with the greater likelihood of success facilitated by the market power presumption itself may provide a significant incentive for the bringing of "nuisance" antitrust suits in cases where the patent confers no market power at all upon its owner.[24]

Moreover, a licensee may willingly agree to such arrangement for a number of legitimate reasons, none of which reflect anticompetitive forcing that is emblematic of market power. The licensee may be motivated to accept a

24 *Cf.* William Montgomery, Note, "The Presumption of Economic Power for Patented and Copyrighted Products in Tying Arrangements," 85 Colum. L. Rev. 1140, 1151 (1985).

tying arrangement because it is more convenient to purchase both the patented and the unpatented goods from the same supplier. Or, for example, the licensor may have an excellent reputation for quality as to both types of goods, which may sway the licensee towards accepting the tying arrangement. In some circumstances, quality control may be the driving force behind the patentee's insistence on tying the unpatented product to the patented one. The oft-cited example of the photocopier manufacturer insisting that its own copying cartridges be used exclusively with its product, out of concern that the use of an inferior cartridge could damage the patented photocopier, and thereby harm the patentee's reputation in the minds of some consumers,[25] is quite similar to the factual setting of this case.

Finally, it is noteworthy that both the Federal Trade Commission and the Department of Justice—two entities charged with the responsibility of the government's antitrust policy—have declined to presume market power from the existence of a patent, even in the Section 1 tying context.[26]

C. Abolishing the Presumption of Market Power Will Harmonize the Law With Economic Reality

The abolition of the presumption of market power in Section 1 tying cases will harmonize antitrust law with the realities of the marketplace without serving to deter genuinely aggrieved plaintiffs from bringing suit in Section 1 tying cases. Though

25. *See* Herbert Hovenkamp et al., IP and Antitrust, § 21.2a (2005).

26. U.S. Dep't of Justice and Fed. Trade Comm'n, Antitrust Guidelines for the Licensing of Intellectual Property § 5.3 "Tying arrangements" (1995) ("The Agencies will not presume that a patent, copyright or trade secret confers market power upon its owner.").

abolition of the presumption will increase the cost and complexity of the plaintiff's affirmative case, the magnitude of the increase should not be unduly burdensome, particularly in view of the fact that a successful plaintiff still may recover treble damages. In cases where a patentee's tying activities constitute anticompetitive forcing, a plaintiff should not find it arduous to uncover the requisite evidence of market power.

Moreover, abolition of the presumption will significantly reduce the exposure that unfairly burdens Section 1 defendants. Currently, the market power presumption creates significant exposure to nuisance suits for patentees that may wish to engage in tying arrangements for reasons that are not anticompetitive.[27] Being forced to rebut a presumption of market power that is not reflective of economic reality is akin to a baseball player stepping into the batter's box with one strike already registered against him. The player still may succeed in his aim—reaching base safely before two more strikes are recorded—but the risk of failing has been dramatically increased. In the case of most patentees in Section 1 cases, this increased risk of failure is unjustified.

Antitrust policy should reflect market considerations, lest it lack objective benchmarks.[28] Given the lack of evidence to

27. National Institute on Industrial and Intellectual Property—1984, "The Value of Patents and Other Legally Protected Commercial Rights," 53 Antitrust L.J. 535 (1985) (comments of Professor F.M. Scherer, professor of economics, Swarthmore College) (recognizing this possibility, and recommending, at a minimum, either the elimination of treble damages for patent tying cases or the abolition of the market power presumption, and preferably, both).

28. *Continental T.V., Inc. v. GTE Sylvania, Inc.*, 433 U.S. 36, 53 n.21 (1977).

support the market power presumption, the burden of proving market power is more appropriately allocated to the plaintiff in a Section 1 tying case than the defendant.

CONCLUSION

HIPLA respectfully requests that this Court reverse the decision of the Federal Circuit, and abolish the market power presumption in Section 1 tying cases.

Respectfully submitted,

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